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C O N F I D E N T I A L SECTION 01 OF 02 SKOPJE 000886

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TAGS: [ECON](#) [EINV](#) [ENRG](#) [PREL](#) [PGOV](#) [MK](#)
SUBJECT: MACEDONIA SCRAPS ELECTRICITY PRIVATIZATION AND
INVESTMENT PLAN

REF: SKOPJE 797

Classified By: P/E MLATHAM REASONS 1.4(B) & (D)

SUMMARY

11. (C) The GOM announced on October 31 that it had canceled the "Negotino" power plant privatization, and would instead keep the plant state owned. This decision ended any possibility that the GOM would award the privatization and investment contract to the U.S. - Greek joint venture, SENCAP, the "runner-up" bidder on the project. The GOM initially awarded the deal to a consortium of four companies, including a suspicious Bulgarian company, and ranked SENCAP's bid second. The Ambassador, in discussions with top GOM economic officials, strongly questioned the GOM's lack of transparency and clear procedures in ranking the bids (reftel). The GOM announced on October 25 that it would not sign with the consortium initially chosen because it had not received all the information it had requested. We lobbied the GOM to sign a deal with SENCAP as the second-ranked bidder, but the GOM decided instead to cancel the tender completely, without giving a justification for its decision. This mismanaged tender process has damaged the GOM's investor friendly image, a point we are underscoring with high-level GOM contacts. End Summary.

A Questionable Process

12. (U) The attempt to privatize the Negotino power plant, a 210 megawatt petroleum fueled electricity power plant, has been a drawn out, problematic process for the GOM. The previous government attempted to privatize the plant during its last few months in office in 2006, but ran out of time. It left the incoming government with a list of ranked bids that put the Austrian company EVN first, and a joint bid by a Canadian company, Hatch Energy, and a Bulgarian company, Finance Engineering, second. The current government canceled the tender, claiming that the offered purchase price of 4 million euros for the plant was too low, and launched a new tender.

13. (SBU) We were contacted in July 2007 by the U.S. company ContourGlobal, which had bid on the second privatization attempt through a joint venture company, SENCAP, that it had formed with the Greek Public Power Corporation. The Ambassador called Deputy Prime Minister for Economic Affairs Zoran Stavreski, who was also the head of the tender commission, to emphasize that the selection process should be fair and transparent. Stavreski assured the Ambassador that the GOM would give all bidders a fair evaluation. The GOM announced on August 1 that the winner of this second round of bidding was a consortium of four companies: Finance

Engineering, Hatch Energy, Mott McDonald (from the UK), and Unit Investment (Netherlands). SENCAP was the only other bidder to meet the tender requirements. The committee ranked the two bids on a 100 point scale and the difference between the two scores was less than one point.

¶4. (SBU) ContourGlobal officials complained to us that the GOM's ranking of the two bids appeared suspect. ContourGlobal had offered a higher purchase price for the existing plant (68 million euros vs. 62 million euros). In addition, ContourGlobal committed to generate 600 megawatts of electricity, while the winning consortium committed to only 500 megawatts. However, the GOM had also counted the winning consortium's offer to convert the existing plant to natural gas and generate an additional 140 megawatts, even though this offer was conditional on the GOM installing a gas pipeline to the plant. Finally, the tender committee gave the winning consortium a perfect ten points for its business plan, while SENCAP's plan received only 3.8 points. The GOM provided ContourGlobal with no explanation of the criteria used to evaluate the business plans.

¶5. (C) The Ambassador discussed her concerns regarding the tender's lack of transparency and questionable scoring with both Minister of Economy Vera Rafajlovska and Deputy PM Stavreski in September (reftel). Stavreski told the Ambassador that no specific legal criteria for the privatization existed, and there was no possibility of an administrative appeal of the GOM decision.

Who Was Really Bidding?

¶6. (SBU) The GOM had trouble inking the deal with the winning consortium due to unanswered questions about the winning

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bidders as well as internal government fissures. Rafajlovska, a member of the minority coalition partner NSDP, refused to sign a deal with the winning consortium until she received additional information from each of the four constituent companies on the nature of its involvement in the consortium, despite apparent pressure to sign from Stavreski and Prime Minister Gruevski. Reportedly, she did not want to be the "fall guy" in case of a future corruption investigation. After several weeks passed and the GOM had still not received an adequate answer from the winning consortium, Stavreski announced on October 25 that the GOM would not sign a deal with the consortium. The media reported that only Finance Engineering had submitted additional information to the GOM, raising questions about the other companies' true involvement in the deal.

¶7. (C) We had serious concerns about the consortium's Bulgarian member company, Finance Engineering. The executive director of Finance Engineering, Genadi Tabakov, contacted us during the first failed attempt to privatize the power plant. Tabakov claimed that his company was majority owned by a U.S. incorporated company, Traders International. However, our research found that Traders International appeared to exist only on paper, while scant public information existed on Finance Engineering. In September, the FBI Legatt in Sofia told us that the two companies were under investigation for financial transactions that had the appearance of money laundering between Bulgaria and the U.S. (Note: this information remains confidential as there is an on-going law enforcement investigation.) Various sources told us they believed Finance Engineering was tied to the Bulgarian mafia and/or an unidentified Russian energy company, though we were not able to evaluate the reliability of that information.

Privatization Canceled Again

¶8. (C) After Stavreski announced that the GOM would not sign with the consortium it had initially chosen, the Ambassador sent Stavreski and Rafajlovska letters detailing the advantages of signing a deal with SENCAP. Econoff delivered

the letters and met with the ministers' staff to reiterate the Ambassador's message. We also discussed the matter with the Prime Minister's Chief of Staff and delivered a copy of the Ambassador's letter to him.

¶9. (C) Despite our efforts, the GOM's spokesperson announced on October 31 that the GOM had canceled the tender for the second time and would maintain state ownership of the power plant. GOM officials gave no explanation for their decision to reject SENCAP's offer. The Ambassador sent Stavreski a follow-up letter expressing her disappointment with the GOM decision, and offering to provide technical assistance to help the GOM conduct transparent, predictable privatizations in the future.

Comment: We Want (Only Some) Foreign Investment

¶10. (C) The GOM's mishandling of this attempted privatization starkly demonstrated that other considerations can trump GOM officials' stated commitment to attracting foreign investment. The GOM has two ministers whose sole job is to attract foreign investment and has paid undisclosed amounts to international media outlets to advertise the advantages of investing in Macedonia. Despite such lip service to attracting FDI, the GOM has illogically canceled an investment deal worth hundreds of millions of dollars. A deal with SENCAP would probably have been the largest single investment since Macedonia's independence, and would have generated badly needed electricity. We don't know why the GOM refused to sign a deal with SENCAP, but it is likely that hidden personal or political concerns outweighed the investment's considerable potential benefits for Macedonia. When Deputy PM Stavreski announced agreement with Russia to embark on gasification projects in Macedonia to repay Russia's outstanding debt, a gas pipeline to the Negotino power plant was identified in the media as one of the projects. The only good news is that the GOM, perhaps due in part to our close examination of the process, avoided signing a deal with the questionable Bulgarian company.

MILOVANOVIC